Headquarters U.S.A.F.

Integrity - Service - Excellence

Commodity Councils 101

NAME (S)
SAF/AQC
DATE

U.S. AIR FORCE

Agenda

- Case for Change
- Commodity Council Impact and Status Update
- Commodity Council Process
- Commodity Council Process Example
- Commodity Council Organization/Responsibilities

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Current Process Negatively Impacts Readiness

- **Multiple Configurations**
  - Significantly inhibits ability to benefit from standardized purchasing with bulk discounted rates
  - Requires preparation of multiple purchase standards
- **Multiple Transactions**
  - High numbers of transactions = High transaction costs
  - Waste of organizational resources
- **Multiple Contracts**
  - Drastically increase procurement and acquisition costs
  - Waste of organizational resources
  - Prohibits the use of available efficiencies
  - Unnecessary duplication of effort

Multiple Configurations, Transactions, and Contracts Negatively Impact Readiness

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Not Optimizing Our Multi-Billion Dollar Buying Power

Who We Buy From		
Organizations (Top Five by Dollars)	**$ Millions**	**Buying Organization**
Lockheed Martin Corp	$12,616	100
The Boeing Company	$9,116	89
Northrop Grumman Corp	$4,908	142
United Technologies Corp	$2,085	39
Raytheon Corp	$1,605	84
NOT *BUYING* AS ONE ORGANIZATION		

What We Buy		
FSC (Top Five by #Contracts)	**$ Millions**	**# Contracts**
Maintenance / Misc Buildings	$567	688
Office Furniture	$121	492
ADP Software	$214	474
RDTE / Defense Applied Research	$400	436
Other Professional Svcs	$732	398
NOT *CONTRACTING* AS ONE ORGANIZATION		

Source: RAND analysis of FY03 data.

Now . . . More Than Ever

- Unfunded requirements are increasing and impacting the mission
  - Airmen are serving 2 week janitorial details at Aviano AB
  - Spangdahlem AB operating budget is 27% less than last year
  - Maintenance troops at Spangdahlem carry their tools through snow and rain down miles of flight line because trucks have been idled to save money

"If we go through another year like this . . . we're impacting quality of life."

–Col Anthony Thompson, USAFE/FM

Stars and Stripes, July 21, 2004

Example Opportunity: Jet Engine Bearing

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An analysis of bearings purchased for the Oklahoma City Air Logistics Center found . . .

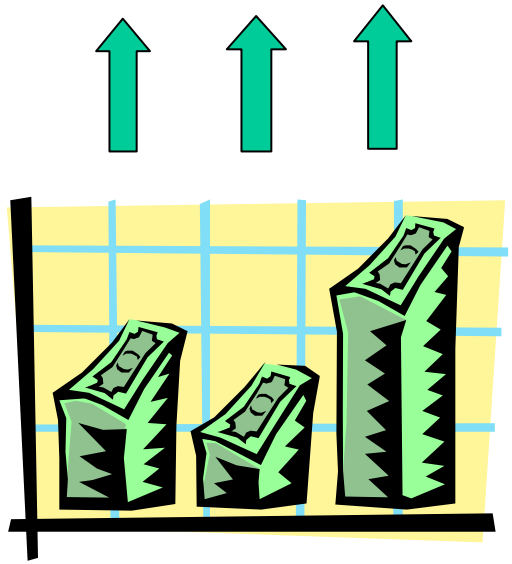
242 Suppliers/Distributors

339 Contracts

1037 Contract Actions

247,531 Avg. Annual Qty

$25.6M Avg. Annual Cost



Total Bearing Manufacturers = 5

Are 5 suppliers the best solution?

Not likely - we must balance SB goals with the desire to leverage spend.

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What Motivates Change?

"Industry innovation" directly effects the bottom line

Profit = Revenue - Expenses

"Government innovation" directly effects the customer

Warfighter Readiness = Budget - Costs

The AF must leverage its "Buying Power" to lower "costs" - this will allow us to increase warfighter readiness.

Bottom Line: We can do "more" mission with the "same" dollars.

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Commercial Industry Success

Leading industry firms are radically reducing purchasing costs using commodity council concepts

- **TIMKEN – 10% reduction across safety supplies and then another 23% by consolidating spend via third-party firm**
- **WHIRLPOOL - $200M reduction this year (15-20% targets)**
- **INGERSOLL-RAND - $300M (direct) and $100M (indirect) savings achieved (avg. 17%. . . up to 50% savings in certain commodities)**
- **TEXTRON - $100M saved in purchase costs this past year alone**
- **DUPONT – $400M (14%) last year . . . this year's goal = $1B**
- **KODAK - $1.4B . . . double-digit productivity targets again this yr.**
- **ENGELHARD – 25% productivity improvement goals this year**
- **MOTOROLA PCS – Anticipates $500M savings possible if standardization/commonality achieved across product lines**

Manufacturers Alliance's Purchasing Council, Oct 02

Commodity Councils and volume leverage are key factors!

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ITCC Accomplishments

- **Configuration Simplification**
  - Reduced configurations from 1000+ to 4
- **Leveraged AF Spend**
  - Coordinated AF Bulk Buys for End of Fiscal Year 2003—avoided $14M in laptop/desktop cost
- **Quarterly Enterprise Buy FY04 #2 (June 04)**
  - Desktop price before=$1089, after= $674
  - Total Cost Avoidance = $2,611,158
  - 16.6% to Small Business
  - Increase in buying power average > 30%

"…the Air Force bought computers at a 30 percent discount by buying in bulk . . . it's a strategy that we plan to use more."

John Gilligan, AF CIO

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Leveraging Opportunity

"Give me a lever long enough and I can move the world"

- Archimedes

Product Type (FY 03 Data)	AF Average Cost Per Unit "No Leverage"	FY03/04 Units	FY03/04 Average Price	Cost Savings
Desktops	$1200	40,387	$787	$16.68M
Laptops	$2127	3,528	$1674	$1.60M

NOTE: FY03/04 Cumulative Data

Other Current Air Force Commodity Councils

- **Force Protection CC (FPCC)**
  - 1st Issue: Demobilization of Army personnel currently securing AF gates and visitor centers (vehicle inspection)
    - Consists of 18 bases and 800 FTE's
    - Additional 5400 ArNG go away at 40 more bases in Nov 04
  - AF/XO-SF, PEO/CM, and AQC forming FP CC
  - Center of Excellence at Lackland AFB (AETC)
  - AF/XO-SF and SAF/AQC to be Commodity Strategy Officials (CSO)
- **Medical Services CC (MSCC)**
  - AFMC/SG is leading effort to stand up AFMS CC for professional services, clinical support services, facilities and mnx support, and contingency services
  - Center of Excellence at WPAFB (AFMC)
  - AFMC/SG and PEO/CM to be CSOs

New Air Force Commodity Councils

- **AFMC PSCM**
  - Eight commodity councils established at Air Logistic Centers
  - Currently identifying core teams, spirals, and spend analysis
- **Services CC**
  - AFPEO/CM and SAF/AQC are seeking functional support
  - Currently conducting spend analysis to determine potential councils
- **Office Supplies**
  - SAF/AQC reviewing opportunities for savings

Successful Commodity Councils in Other Govt Organizations

- **Department of Homeland Security (DHS)**
  - 15 commodity councils established
  - Office Supplies, Infrastructure, Energy, Facilities, Fleet, Uniforms, etc.
- **Department of Defense**
  - USAF instrumental in standing up DoD CCs
  - Conducting spend analysis for multiple professional and administrative services commodity councils
  - Core team selection and training underway now

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The Impact of CCs

- **Results that can be achieved:**
  - Enterprise-wide procurement strategies
  - Integrated customers and suppliers
  - Commonality and standardization
  - Leveraged purchasing volume
  - Reduced duplication of effort—market analysis done strategically driven by functional experts rather than tactically at the individual unit level
- **Dollars saved = Efficiency funds that can be used to fund other initiatives**

Efficiency Funds Example

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You expected that Base Operations will cost you *$100K*.

However, you saved *$25K* by using contracting vehicles developed by the regional base operations commodity council

Efficiency Funds: $25K

Note: Data is for example purposes only

Efficiency Funds Example

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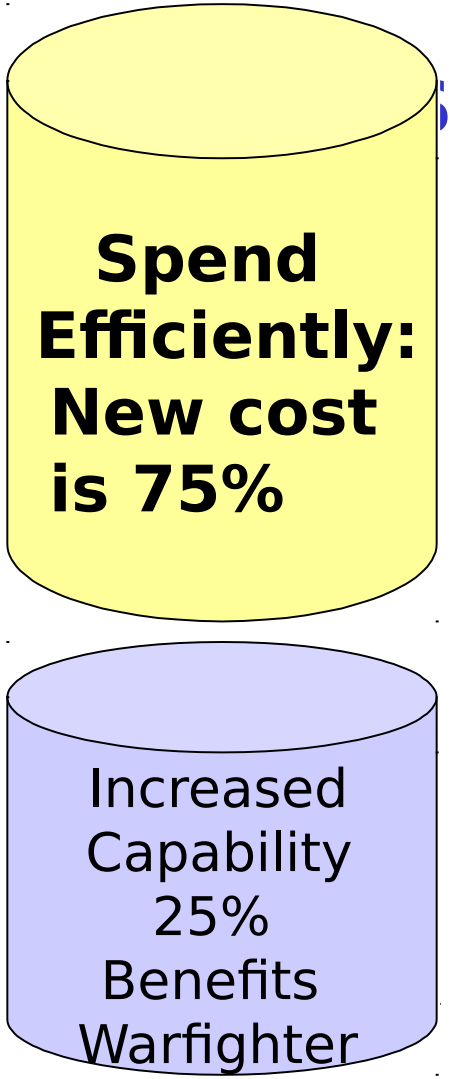

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Commodity Council Defined

'Commodity' = segmentable category of goods or services

- Does not imply an expendable or non-complex item

'Commodity Council' = cross-functional sourcing team

- AF-Level Organization—reports to the Commodity Strategy Official
- Develop enterprise-wide procurement strategies
- Integrate customers and suppliers
- Drive commonality and standardization
- Leverage purchasing volume

Characteristics of a Commodity Council:

- Executive-level endorsement
- Well-informed and market savvy commodity experts
- Centralized strategy . . . decentralized execution

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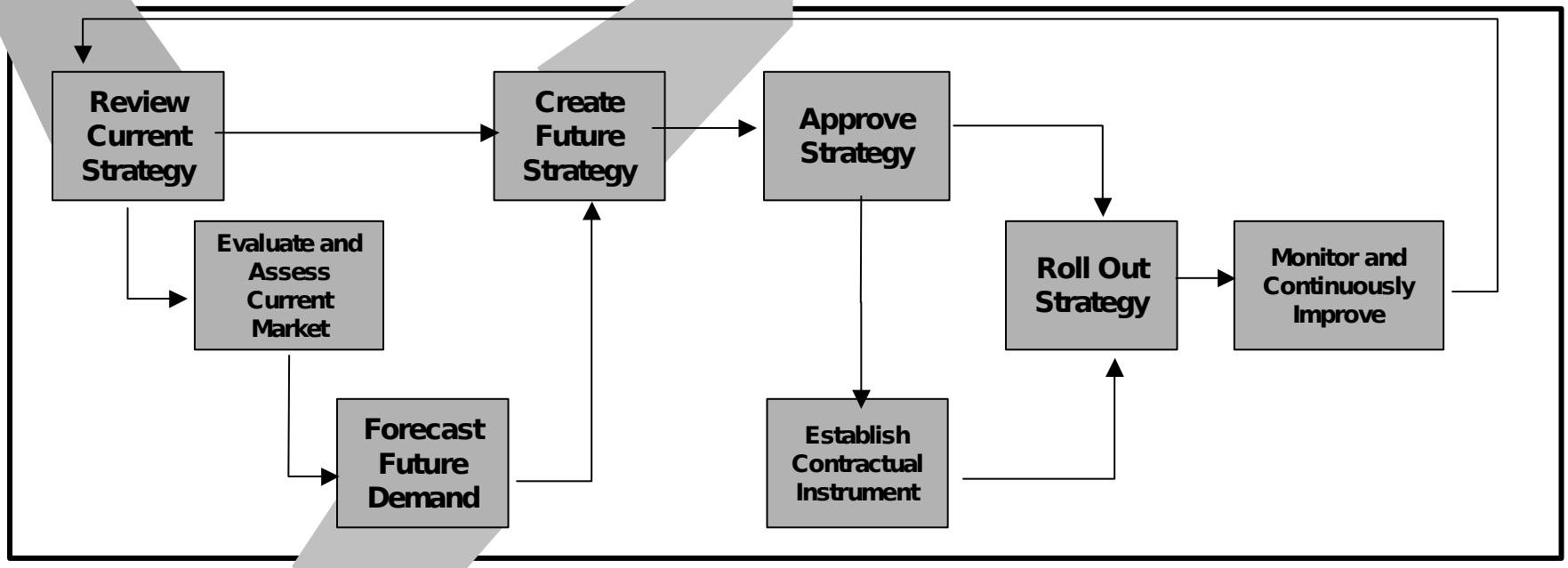
Commodity Council Operations Process

- Review Current Small Business Participation

- Commodity Acquisition Management Plan



- Demand Plan
- Cost Estimate
- Approved Spend Plan

✓Configurations Simplified

✓Transactions Minimized

✓Enterprise Contracts Established

Commodity Council Summary

Centralized Strategy …decentralized execution

Commodity Council = cross-functional sourcing team

Commodity Council

- **Technology Enabled Execution**
- **Business Intelligence**
- **Leveraged Buying**
- **Collaborative Commerce**
- **Corporate Level Strategy**

Commodity = segmented goods or services.

Does not imply an expendable or non-complex item category of expendable or non-complex items

Characteristics: Executive-level endorsement

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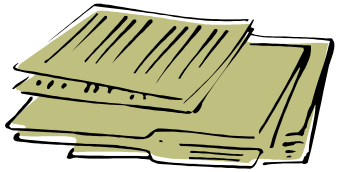
Commodity Example

Desktops and Laptops

Pre-Commodity Council Process

Bob identifies a need for Desktops/ Laptops sends to resource advisor

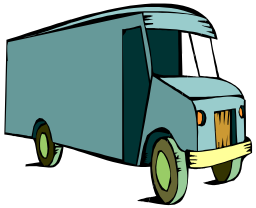
Resource advisor approves



Bob completes a Purchase Requisition and sends it to Sally, the Contracting Officer

Sally issues a Purchase Order

Time passes….



The Desktops and Laptops are delivered to the base….

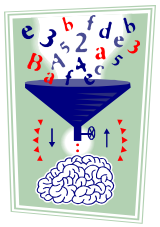
And then to Bob

Time: Process is people-based and manual which creates time inefficiencies.

Acquisition Cost: Increased significantly

Commodity Council Process: Planning for the Need

Sally is a member of the AF Office Information Technology Commodity Council



Business Intelligence is collected

The contracts are available on AFWAY

The Council negotiates AF-wide desktop and laptop contracts with large and small businesses for an average savings of 30%

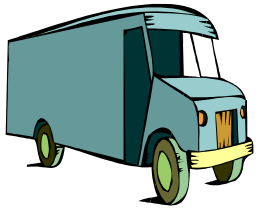
The Council researches the Desktop and Laptop market and analyzes the business intelligence on an ongoing basis

Commodity Council Process: Meeting Bob's Need

Bob identifies a need for Desktops and Laptops.

Requirements consolidated with other AF Requirements

Bob logs on to AFWAY and purchases Desktops and Laptops.



The Desktops and Laptops are delivered to Bob

Bob saves $$$$

Time: Process now automated & electronic drastically reducing acquisition time and dollars

Average Saving: 30%

Bob saves Acquisition Cost

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What is AFWAY?

afway.af.mil

- ✓ AFWAY is the MANDATORY online source/purchasing tool for desktop/laptop buys
- ✓ Commodity Council negotiated contracts are available
- ✓ There will be purchasing limits based on user ID
- ✓ Purchasing can be done from the buyer's desktop
- ✓ Purchase Data, or Business Intelligence, will be automatically collected by AFWAY and analyzed by the Commodity Council to develop future strategies

Through use of AFWAY, the AF and its suppliers benefit through efficient use of human capital and monetary resources; saving time and money while gaining efficiency. We now source collectively vice independently taking full advantage of acquisition cost savings.

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CC Organization
Who is on a Commodity Council?

- ✓ Six to nine full-time members who manage the day to day business of the commodity council from a "Center of Excellence"
- ✓ Representatives from each MAJ COM participate on a regular basis
- ✓ MAJ COM representatives are requirements experts for the given commodity

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Commodity Council Structure

Core Members

- Commodity Strategy Official
- CC Director
- Deputy Director
  - Commodity Project Manager
  - Business Requirements Analyst
  - Commodity Expert
  - Small Business Consultant
  - Supply Chain Risk/ Market Intelligence Analyst
  - Procurement Analyst/ Contracting Expert
  - MAJCOM & Functional Reps

Advisors

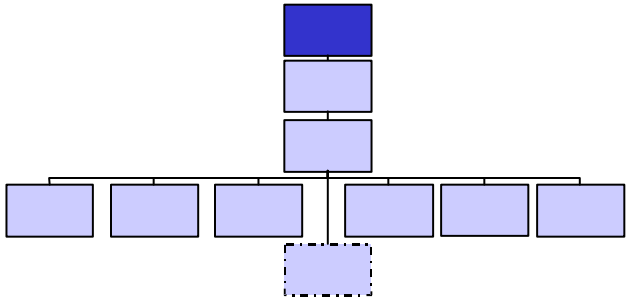
- Industry Consultant
- Standards & Architecture Experts
- Policy Expert
- Business Process Analyst
- Economic Analyst
- Legal Advisor (JAG)
- Financial Analyst
- Training Expert
- Org Change Manager

Stakeholders

- MAJCOM Leadership
- Functional Leadership

Roles & Responsibilities

Commodity Strategy Official



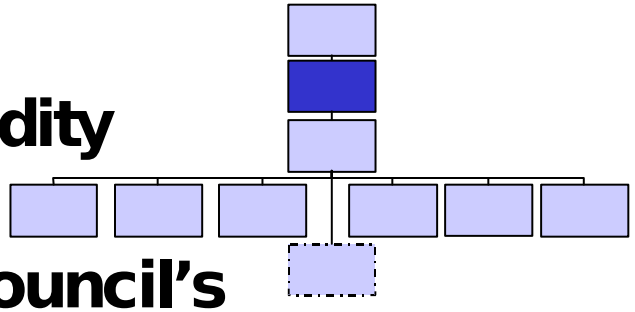
- Approves commodity strategy
- Addresses organizational barriers
- Directs the use of strategic agreements
- Ensures adequate representation on the council
- Provides guidance and resources
- Participates in review sessions

CSOs:

- Dual chairs may be recommended to provide both user and procurement expertise

Roles & Responsibilities

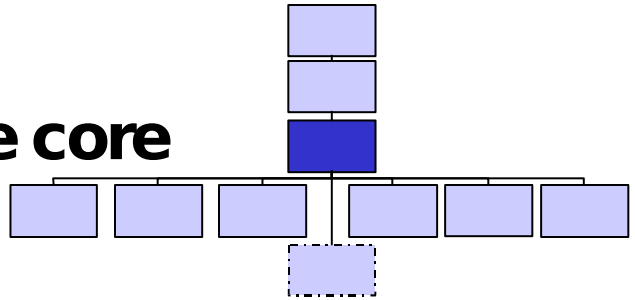
Commodity Council Director



- Advocates recommended commodity strategy
- Assumes accountability for the Council's Operations
- Facilitates selection of Council members
- Oversees development of the recommended Commodity Acquisition Management Plan (CAMP)
- Ensures execution and compliance of the approved CAMP

Roles & Responsibilities

CC Deputy Director

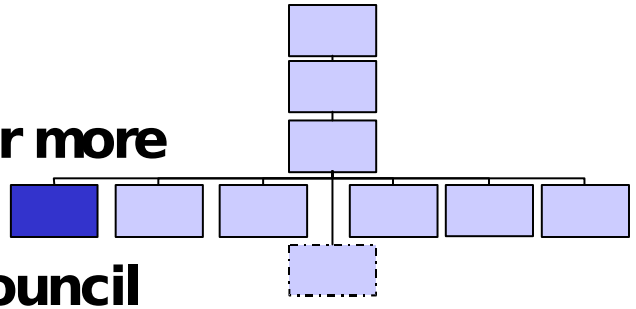


- Directs day-to-day activities of the core members
- Prioritizes objectives and tracks timelines/deliverables
- Facilitates the development of the CAMP
- Resolves tactical issues
- Identifies advisor position candidates

Roles & Responsibilities

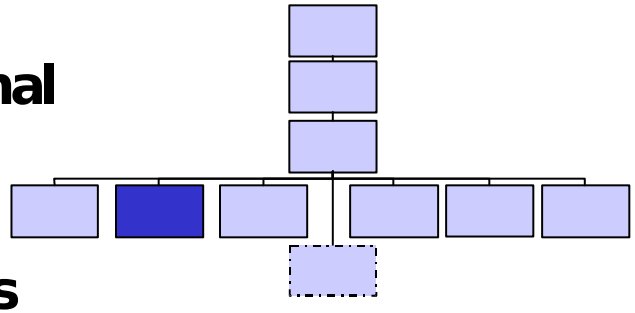
Commodity Project Manager

- Manages strategy development for one or more commodities
- Enlists commodity experts to serve on council while strategy being developed
- Manage strategy schedule



Business Requirements Analyst

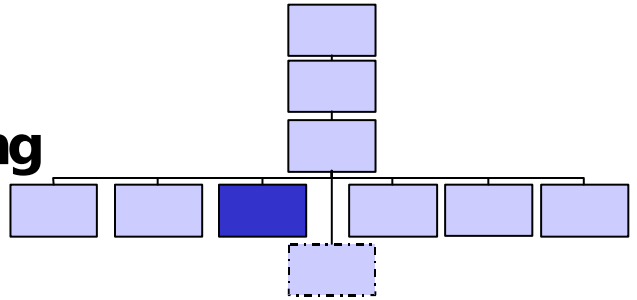
- Collects, coordinates, and analyzes internal commodity requirements from users
- Document, analyze, redesign, and help implement effective and efficient business processes



Roles & Responsibilities

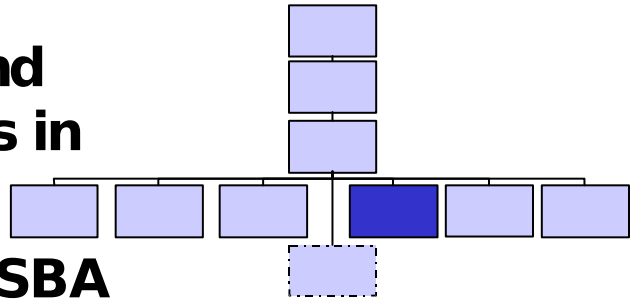
Commodity Expert

- Provides technical expertise and sourcing knowledge for the commodity group
- Understands the industry's economics, technologies, and trends



Small Business Consultant

- Develops and coordinates an effective and efficient use of socio-economic programs in the commodity strategy
- Provides guidance to the Council on the SBA procedures and recommended strategies regarding small business suppliers



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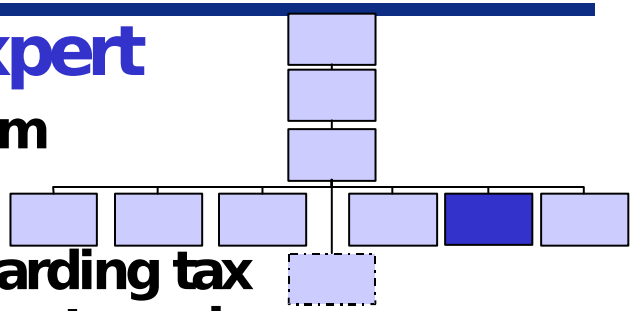
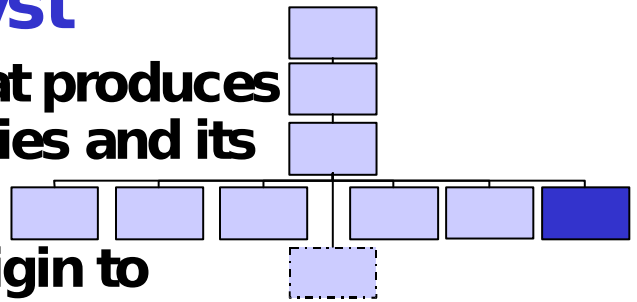
Roles & Responsibilities

Procurement Analyst/Contracting Expert



- Manages Freedom of Information program
- Monitors new supplier transition
- Assists Commodity Project Manager regarding tax exemption, closing out/terminating contracts and orders, root cause analysis
- Performs actions related to property administration for specified contracts and/or commodities

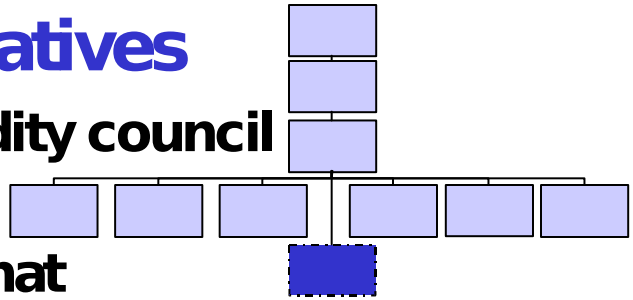
Commodity Market Intelligence Analyst



- Researches and analyzes the industry that produces the commodity, its economics, technologies and its trends
- Analyzes risk in the supply chain from origin to delivery
- Analyzes the capacity of supplier to meet probable demand patterns

Roles & Responsibilities

MAJ COM and Functional Representatives



- Represent stakeholders during commodity council operations
- Survey functional areas to determine what capabilities require the commodity
- Primary communication link to other functional stakeholders at MAJ COMs
- Primary communication link to base level functionals under the MAJ COM
- Could also serve as Project Manager, Commodity Expert, or Business Requirements Analyst

MAJ COM Participation *Expectations*

- **Collect & validate data for your MAJ COM**
  - **-- Spend by source, qty, base/unit type, contract, etc…**
  - **-- Forecast future spend & budget**
  - **-- Determine associated services**
  - **-- Identify critical trends**
  - **-- Identify MAJ COM standards**
- **Fully participate (e.g. physically) in strategy development**
- **Participate (e.g. virtually) in other reviews and meetings**
- **Use AF Portal for collaboration & communication**
- **Units fund all MAJ COM Rep TDYs & associated expenses**

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Back Up

What's My Role?

- Help us identify your commodity space
- Identify your functional area champion
- What is the way forward?

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Commodity Councils
A Success Story - ITCC

- Established 4 AF common configurations for Desktops, Laptops and Servers
  - Reduced AF configurations from >1000 to 4
  - Configurations are reviewed and updated quarterly
- Implemented a repeatable enterprise-wide "bulk buy" approach using quantity price breaks and online "e-buying"
- Documented savings of between 20-40%, at least $10M in first year savings
- Shaped and leveraged FY03 EOY Desktop/Laptop buys
  - AFRC: Obtained $500K "more hardware" for J uly order
  - AFMC: Obtained 3,076 additional desktops for needed tech refresh
  - AU: Beat $850 planned price at higher technology level
  - ACC/USAFE/AETC: Combined purchases to achieve savings at 10,000 unit level. Increased buying power by 22%
  - Dept of Homeland Security participation anticipated for future buys

Process & Governance
Sample Schedule

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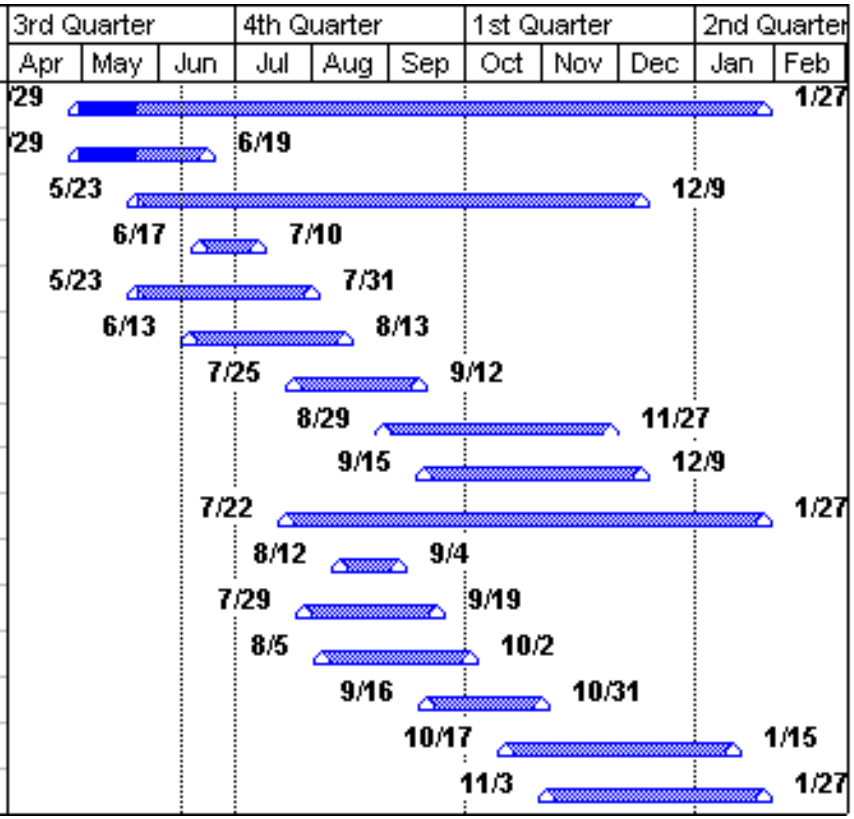
ID	Text30	Task Name
1		**ITCC Master Schedule (DRAFT)**
7		**ITCC Formal Standup**
88		**Desktop/Laptop Commodity Strategy**
90		**Review Current Strategy**
97		**Evaluate & Assess Current Market**
114		**Forecast Future Demands**
120		**Create Future Strategy**
130		**Roll Out Strategy**
134		**Establish Contractual Instruments**
141		**I/O Peripherals Commodity Strategy**
143		**Review Current Strategy**
150		**Evaluate & Assess Current Market**
166		**Forecast Future Demands**
172		**Create Future Strategy**
181		**Roll Out Strategy**
185		**Establish Contractual Instruments**



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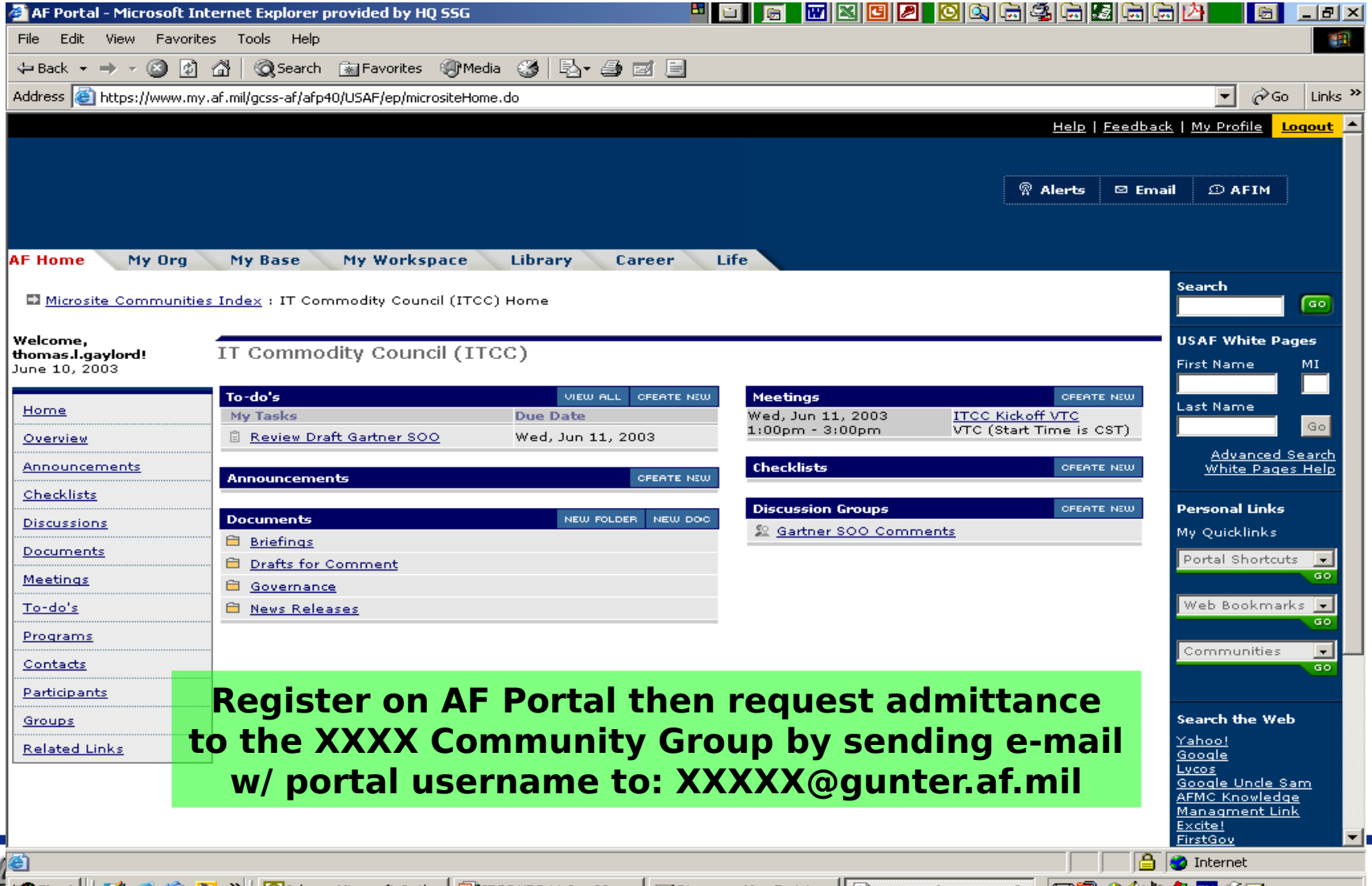
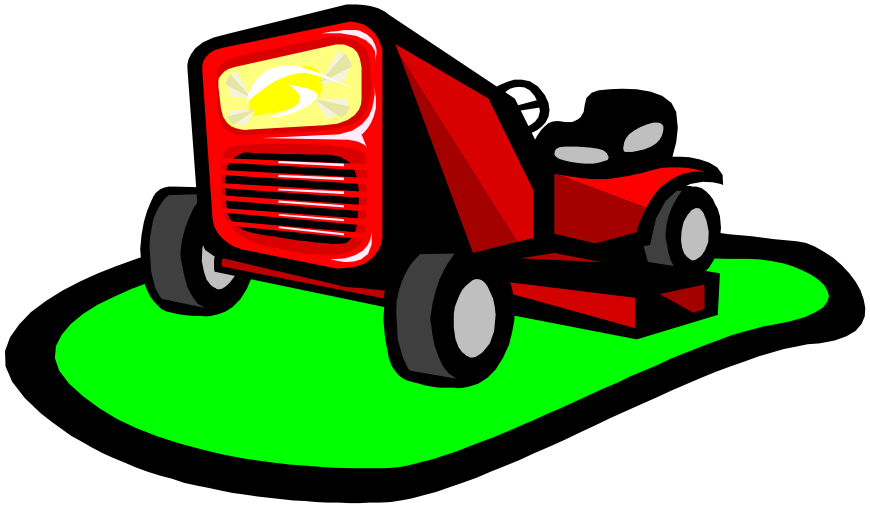
Sample AF Portal
ITCC Community



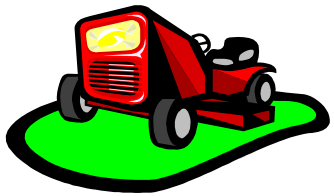
Register on AF Portal then request admittance to the XXXX Community Group by sending e-mail w/ portal username to: XXXXX@gunter.af.mil

Services Example

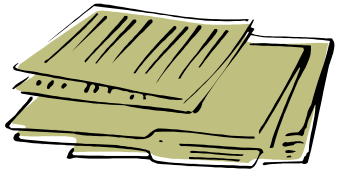


Lawn Mowing

Typical Process – Scenario A



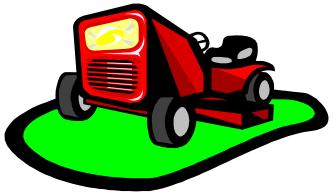
Nancy needs to have the base lawn mowed for 12 months



Nancy completes a Purchase Requisition and sends it to Juan, the Contracting Officer

Time passes….

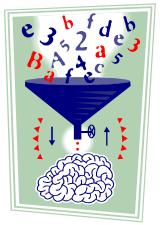
Juan issues a contract to “Quality Lawn”, a local, small business



The base lawn gets mowed for 12 months

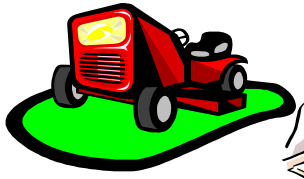
New and Improved Process: Planning for the Need

Juan is a member of the Regional Base Services Commodity Council

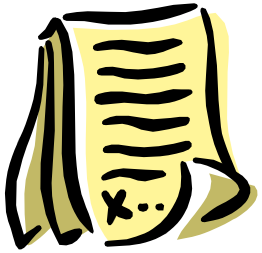


Business Intelligence is collected

The contracts are available on AFeBuy.mil

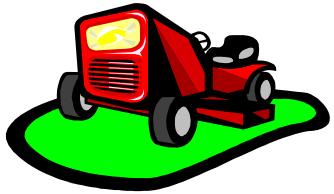


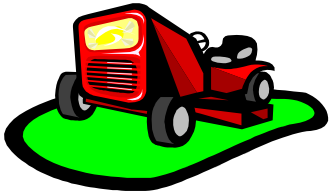
The Council researches the lawn care market and analyzes the business intelligence on an ongoing basis



The Council negotiates regional lawn mowing contracts with large and small businesses for an average savings of 10%

New and Improved Process: Meeting Nancy's Need





Nancy needs to have the base lawn mowed for 12 months

Nancy logs on to AFeBuy.mil and chooses "Quality Lawn" a local, small business who is already under contract.

The lawn is mowed by "Quality Lawn" for 12 months.

Nancy saves $$$$

Nancy saves Time